


BUSINESS 101

Evaluate a Business Idea

2013



WORKSHOP AGENDA


- About the SBDC
 - Self-Analysis
 - License Requirements
 - The Business Plan
 - Additional Resources
- 

ABOUT THE SBDC

Guiding Montana Businesses to Success

ABOUT THE SBDC

The Montana Small Business Development Center (SBDC) Network is a partnership between the Montana Department of Commerce, the U.S. Small Business Administration and regional economic development organizations and institutions of higher education. The network of ten centers is strategically positioned throughout the state and offers free, confidential counseling and free or low-cost training to both existing and start-up businesses.




SBDC MISSION & VISION

MISSION:

To guide existing and start-up businesses to success by maximizing value through quality programs and coordinating with resource partners in order to create jobs, wealth and economic prosperity in Montana.

VISION:


To be a leader in business innovation, a highly-utilized source of results-driven business assistance and a major contributor to sustaining a healthy, growing and globally competitive small business sector in Montana.



SELF-ANALYSIS

Is this the right business for you?

CLASSIC ENTREPRENEUR TRAITS

- Passion
 - Flexibility
 - Creativity
 - Persistence
 - Self-Confidence
 - Independence
 - Responsibility
 - Calculated Risk Taking
 - Open Mindedness
 - High Energy Level
- 
- The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a larger, dark teal triangle pointing towards the left. The rest of the bottom area is a solid dark teal color.

REASONS FOR GOING INTO BUSINESS

- Prior work experience
- Tired of working for someone else
- Ability to use your knowledge and skills
- Exercise your creative thinking abilities
- Fulfill longtime goals

What are YOUR top three reasons?

The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a larger, dark teal triangle pointing towards the left. The rest of the bottom section is a solid dark teal color.


ADVANTAGES

- Be your own boss
- Personal satisfaction
- Hobby as a business
- Contribute to the community
- Flexibility and freedom


DISADVANTAGES

- Assuming financial risk
- Long, hard hours
- YOU wear all the hats
- Income may be unstable

HOW DO BUSINESSES SUCCEED?

- Developing a solid business plan
 - Setting realistic goals and expectations
 - Targeting the right group of customers
 - Keeping a close eye on costs, pricing and profit
 - Putting together a group of mentors and business advisors
- 
- The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a larger, dark teal triangle pointing towards the left. The rest of the bottom section is a solid dark teal color.

DEFINE YOUR BUSINESS CONCEPT

- What type of business are you interested in?
 - What kind of products or services would you offer?
 - Who is your target market?
 - Who are your competitors?
 - Why would customers buy from your business?
 - How will potential customers find out about your business?
- 
- The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a larger, dark teal triangle pointing towards the left. The rest of the bottom area is a solid dark teal color.

LICENSE REQUIREMENTS

First things first.

Where do I get my _____ license?

BUSINESS LICENSE REQUIREMENTS


Different businesses and business structures will have different licensing and registration requirements.

- Registration of Assumed Business Name
- Articles of Incorporation/Organization (LLC, S-Corp, etc.)
- Professional & Occupational Licensing
- **Federal Tax ID Number, MT Withholding, Worker's Comp**
- City/County Business License or Registration
- Zoning Regulations & Building Permits
- One-Stop Licenses

THE BUSINESS PLAN

What is a business plan and why do I need one?

BUSINESS PLAN OBJECTIVES

- A written description or narrative of the business opportunity
 - Outline of your goals, objectives and strategies
 - Identification of factors that will determine your success
 - Demonstration of your ability to repay a loan
- 

GENERAL OUTLINE

Every business plan will be different, but most follow a general outline:

- Cover Page
- Executive Summary
- Company Overview
- Organizational Plan
- Marketing Plan
- Financial Plan
- Supporting Documents

EXECUTIVE SUMMARY

- Can be written first or last
- A sense of why this is an a good business opportunity
- A very clear statement of your long-term mission
- **A (very) brief overview of the business, the owner's background, market potential and financing need.**
- Should be ½ page to maximum 1 page long.

COMPANY OVERVIEW

Should include:

A very clear and concise description of your business in terms of its products and services.

A reader should understand:

- What business you are in
- What primary products or services you offer
- How they benefit your target market
- The location of the business

ORGANIZATIONAL PLAN

Should include:

- Legal Structure
 - Management
 - Personnel
 - Record Keeping
 - Insurance
- 

BUSINESS LEGAL STRUCTURES

Depending on your business type and size, you will want to decide which type of business structure fits your needs.

- Sole Proprietorship*
- General or Limited Partnership
- Limited Liability Company
- Corporation

*Most popular among small businesses



SOLE PROPRIETORSHIP

PROS

- Total control
- Simplest form
- Few legal hurdles

CONS

- Unlimited liability
- Limited access to capital
- You are the business

PARTNERSHIP(S)

PROS

- Easy to set up
- Offers more financial and management potential for the business
- Taxed at individual level

CONS

- Unlimited liability
- Shared management control
- Limited transferability

LIMITED LIABILITY COMPANY (LLC)

PROS

- Limited liability
- Fairly easy to set up
- No required board meetings
- Taxed like a partnership

CONS


- Yearly government reports
- Membership not easily transferrable

“C” CORPORATION

PROS

- Limited liability shield
- Ease of raising capital
- Corporate benefits

CONS

- Complex
 - Highly regulated
 - Double taxation
- 

“S” CORPORATION

PROS

- Limited liability shield
- No double taxation
- Ease of raising capital

CONS

- Shareholders pay tax whether income is distributed or not
- Shareholders must be U.S. residents

ORGANIZATIONAL PLAN

Should include:

- Legal Structure
- Management
- Personnel
- Record Keeping
- Insurance

MANAGEMENT


Tip: recognize your strengths and weaknesses.

6 Types of Management:

- Financial
- Marketing/Sales
- Human Resources
- Operations
- Service Provider
- Producer/Manufacturer

ORGANIZATIONAL PLAN

Should include:

- Legal Structure
 - Management
 - Personnel
 - Record Keeping
 - Insurance
- 

PERSONNEL

- Explain how many employees you need and/or plan to hire
- Provide thorough job descriptions
 - Are they working full-time or part-time?
- Outline their duties
 - How many hours will they work?
 - What, exactly, will they be doing?


ORGANIZATIONAL PLAN

Should include:

- Legal Structure
- Management
- Personnel
- Record Keeping
- Insurance

RECORD KEEPING

Tips: If this is your weak area – consider outsourcing.

- Do NOT cut corners.
 - Consider hiring an accountant
 - Open a separate bank account for your business
 - Use accounting software (i.e., QuickBooks or Peachtree)
 - Maintain good internal controls
- 

ORGANIZATIONAL PLAN

Should include:

- Legal Structure
- Management
- Personnel
- Record Keeping
- Insurance

INSURANCE

- General Liability
- Product Liability
- Professional Liability
- **Workers' Compensation**
- Vehicle
- Surety Bonds
- Business Property
- Business Interruption

GENERAL OUTLINE

We've covered the Executive Summary, Company Overview and Organizational Plan – let's move on to the Marketing and Financial Plans.

- Cover Page
- Executive Summary
- Company Overview
- Organizational Plan
- Marketing Plan
- Financial Plan
- Supporting Documents

MARKETING PLAN

OBJECTIVES:

- Define the market opportunity
- Identify the markets your business intends to serve
- Conduct a SWOT Analysis
 - Strengths, Weaknesses, Opportunities, Threats
- **Determine your Four “P’s” of Marketing**


MARKETING PLAN COMPONENTS

- Vision
 - Objectives and Goals
 - Target Market
 - Market Research
 - Competitive Analysis
 - Strategies
- 
- The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a dark teal triangle pointing towards the left. The rest of the bottom section is a solid dark teal area.

MARKET ANALYSIS

- Collect information (lots, and lots of information)
- Know and understand your market
- Determine the demand for you product or service
- Ask lots of questions:
 - What is the market opportunity?
 - Why does it exist?
 - Why are you uniquely positioned to take advantage?

MARKET RESEARCH

- Industry trends & statistics
 - Demographic & psychographic data
 - Market data, historical sales, similar markets
 - Trade journals and market research reports
 - Surveys, focus groups
- 

MARKETING PLAN FUNDAMENTALS

Your market research and projections must

ALWAYS

tie back to the financial plan.



THE FOUR “P’S” OF MARKETING

- Product
- Price
- Placement
- Promotion



MARKETING ESSENTIALS

- Building relationships
 - Customer service
 - Planning
 - Risk bearing
 - Promoting
 - Selling
- 
- The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige trapezoidal shape. To its right is a dark teal triangle pointing upwards. The rest of the bottom section is a solid dark teal rectangle.

CUSTOMER VALUE VS. SALES

<u>Customer Type</u>	<u>% of Customers</u>	<u>% of Sales</u>
■ Loyal	10%	50%
■ Semi-Loyal	20%	30%
■ Non-Loyal	70%	20%

FINANCIAL PLAN

If you're going to need operating and start-up capital to start your new business, your chances of getting money from established financial institutions increase with a well-developed business plan that includes a solid financial plan.

Be prepared for this plan to be scrutinized.



BASIC TYPES OF FINANCING

- Conventional business loans (Banks)
 - Loan Guaranty Programs (SBA/USDA/BIA)
 - SBA Loan Programs
 - 504 Loan Program
 - 7(a) Loan Program
 - Microloan Program
 - Disaster Loans
 - Revolving Loan Funds (RFL)
 - Community Development Finance Institutions (CDFI)
 - Grants
- 

THE 6 C'S OF CREDIT

1. Character
 2. Capacity
 3. Capital
 4. Conditions
 5. Collateral
 6. Credit
- 
- A decorative graphic at the bottom of the slide consisting of several overlapping triangles in shades of teal and tan, creating a modern, abstract design.

START-UP COSTS

Initial Start-up Expenses

- Equipment & Fixtures
- Inventory
- Insurance
- Advertising
- Contract Labor
- Land & Building
- Leasehold Improvements
- Utility Deposits
- Licenses & Permits

Ongoing Expenses

- Wages & Benefits
- Payroll Taxes
- Marketing & Advertising
- Insurance
- Telephone
- Rent
- Utilities
- Supplies
- Maintenance

COLLATERAL VALUE VS. LOAN VALUE

Cost of the Business	\$250,000
<u>20% Equity</u>	<u>\$ 50,000</u>
Asking Loan Amount	\$200,000

ASSETS BEING PURCHASED OR OWNED

Start-up Expenses	\$ 25,000
New Equipment	\$120,000
Used Equipment	\$ 70,000
<u>Inventory</u>	<u>\$ 50,000</u>
Total Collateral	\$260,000

“LOANABLE” VALUE OF COLLATERAL

Start-up Expenses (0%)	\$ 0
New Equipment (80%)	\$ 96,000
Used Equipment (50%)	\$ 35,000
<u>Inventory (50%)</u>	<u>\$ 25,000</u>
Total Collateral	\$156,000

Total amount bank will loan: \$156,000

GAP FINANCING

Total Loan Ask:	\$200,000
<u>Total Collateral:</u>	<u>\$156,000</u>
Shortage of Collateral:	\$ 44,000

Solutions?

- More Cash
- SBA Guarantee
- Personal Guarantee
- Personal Assets

SOURCES & USES OF FUNDS

Sources of Funds


■ \$ 65,000	Owners Capital
■ \$ 20,000	Grant
■ <u>\$200,000</u>	Bank Financing
\$285,000	

Uses of Funds

■ \$ 60,000	Land
■ \$198,500	Building
■ \$ 20,000	Equipment
■ <u>\$ 6,500</u>	Working Capital
\$285,000	

Total Source = Total Use = \$285,000

TOP 7 REASONS FOR LOAN DENIAL

1. Poor cash flow
 2. Low market demand
 3. **Lack of owner's equity**
 4. Poor credit rating
 5. Lack of competence
 6. Poor collateral
 7. Less than 3 years experience
- 

GENERAL OUTLINE

Phew! Last section: what to include with your supporting documents.

- Cover Page
- Executive Summary
- Company Overview
- Organizational Plan
- Marketing Plan
- Financial Plan
- Supporting Documents

SUPPORTING DOCUMENTS

What to Include:

- Resumes
 - Credit Reports
 - Copies of Leases
 - Copies of Buy/Sell
 - Letters of Reference
 - Contracts/Legal Documents
 - Demographic Studies
- 

ADDITIONAL RESOURCES

- Montana Department of Commerce
 - Business Resources Division: <http://www.commerce.mt.gov>
- U.S. Small Business Administration; <http://www.sba.gov>
- Internal Revenue Service; <http://www.irs.gov>
- Service Corps of Retired Executives (SCORE);
<http://www.score.org>
- Montana Manufacturing Extension Centers (MMEC)
- Montana Department of Agriculture
 - Food and Ag Development Centers (FADC)

FINALLY, JUST REMEMBER:

“Success is never an accident. It typically starts as imagination, becomes a dream, stimulates a goal, grows into a plan of action – which then inevitably meets with opportunity.”

-Dan Miller

The bottom of the slide features a decorative design with overlapping geometric shapes. On the left, there is a light beige triangle pointing towards the center. To its right is a larger, dark teal triangle pointing towards the left. The rest of the bottom section is a solid dark teal color.

ANY QUESTIONS?

- Schedule a counseling appointment with your local SBDC

Please remember to fill out your evaluations!